

Annual Report

1965

The Bell Telephone Company of Canada



The Annual General Meeting of the Shareholders of The Bell Telephone Company of Canada will be held at the Head Office of the Company, 1050 Beaver Hall Hill, Montreal, Quebec, on Thursday, the 10th day of March, 1966, at eleven o'clock in the morning. Notice of the meeting and proxy form have already been mailed to shareholders.

Sur demande, le secrétaire vous fera volontiers parvenir un exemplaire français du rapport annuel.



COVER

Our new trade mark, adopted in 1965, presents a stronger and more up-to-date image of the Company and reinforces the Canadian identity of our ownership, management and service.

FEB 28, 1966
EIGHTY-SIXTH

ANNUAL REPORT

THE BELL TELEPHONE COMPANY OF CANADA
1050 BEAVER HALL HILL, MONTREAL

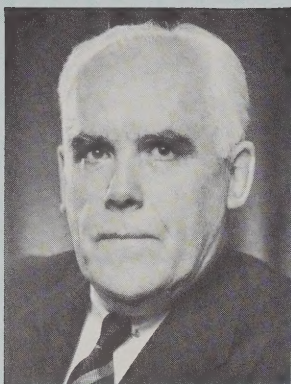
A Canadian company owned and controlled
by Canadians. Of our 214,000 shareholders,
209,000 reside in Canada, and they own
94 per cent of the total stock.

YEAR ENDED DECEMBER 31, 1965

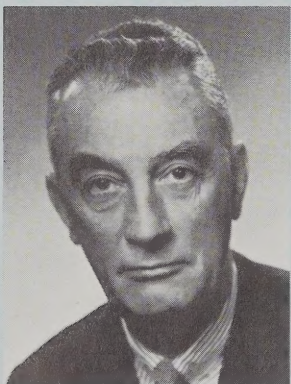
CONTENTS

	PAGE
The Year's Highlights	3
Report of the Directors	5
Earnings	
Service and Construction	
Financing	
Personnel	
Financial Statements	14
Notes to Financial Statements	
Auditors' Report	
Ten-Year Review	22

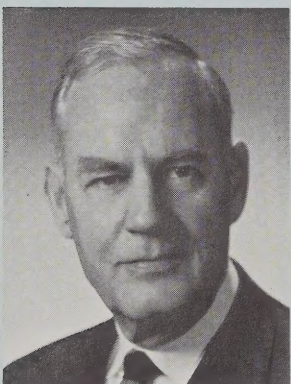
OFFICERS



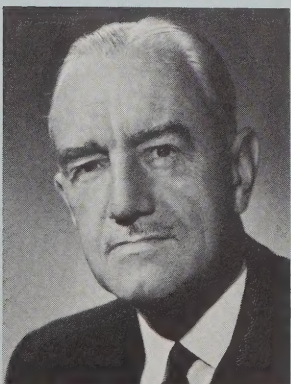
THOMAS W. EADIE



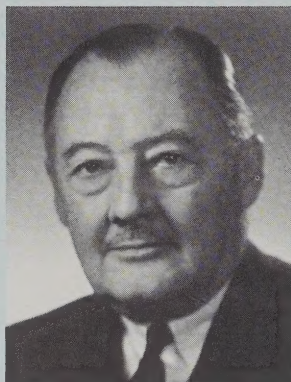
MARCEL VINCENT



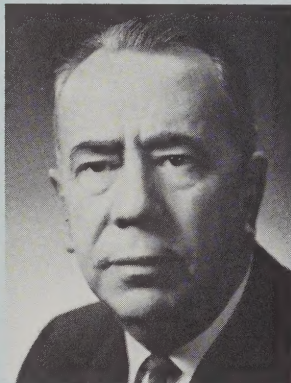
JAMES A. HOBBS



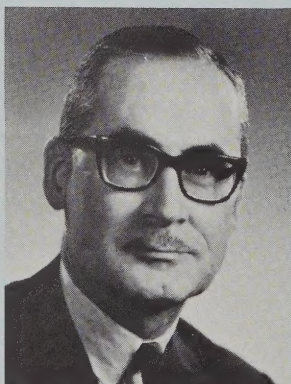
EDWARD A. ROLPH



ARNOLD J. GROLEAU



ALEXANDER G. LESTER



ROBERT C. SCRIVENER

THOMAS W. EADIE
Chairman of the Board

MARCEL VINCENT
President

JAMES A. HOBBS
Executive Vice-President

EDWARD A. ROLPH
Executive Vice-President

ARNOLD J. GROLEAU
Executive Vice-President, Administration

DAVID M. CAMP
Vice-President, Personnel

W. HARVEY CRUICKSHANK
Vice-President, Public Relations

WALLACE C. MACPHERSON
Vice-President, Revenue Requirements

P. CHARLEMAGNE VENNE, Q.C.
Vice-President, Law

GEORGE C. WALLACE
Vice-President, Finance

WILLIAM C. CORBETT
Treasurer

SIMCOE C. SCADDING
Secretary

ALEXANDER G. LESTER
Executive Vice-President, Planning & Research

ROBERT C. SCRIVENER
Executive Vice-President, Operations

J. VERNON LEWORTHY
Vice-President, Operations Staff

JOHN R. TRAVES
Vice-President, Engineering

MAURICE d'AMOURS
Vice-President & General Manager, Montreal Area

CLAUDE DUHAMEL
Vice-President & General Manager, Eastern Area

WALLACE M. RANKIN
Vice-President & General Manager, Western Area

OREN A. ROBERTSON
Vice-President & General Manager, Toronto Area

JAMES C. THACKRAY
Vice-President & General Manager, Central Area

C. BEVERLEY WOODLEY
Vice-President & General Manager, Toll Area

Z. HENRY KRUPSKI
Vice-President, Trans-Canada

SERVICE

\$242.5 million invested in new plant and equipment to meet present requirements
and anticipate future customer service needs
265,000 telephones added, raising total in service to 4,578,000
Daily average of 27.4 million local and long distance calls completed
Scope of local calling greatly increased within developing metropolitan areas
and between neighbouring communities
TWX customers gained access to more than 100 countries overseas

NEW CAPITAL

Bond issue provided \$50 million in U.S. funds
\$19.1 million came from Employees' Stock Plan
Retained earnings added \$21.4 million

PERSONNEL

At year end, employees numbered 38,320; payroll for 1965 was over \$200 million
New agreements signed with three unions representing 30,000 employees
Company's Pension Plan integrated with government plans
Improved medical expense plan announced

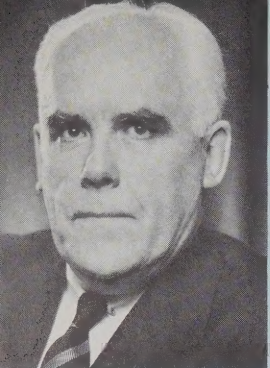
EARNINGS

Hearings held on earnings and related matters; Board's judgment awaited
Return on total capital was 6.6 per cent
Earnings amounted to \$2.92 per share; dividends of \$2.20 per share were paid
Total taxes were equivalent to \$3.58 per share, or \$23.92 per telephone in service

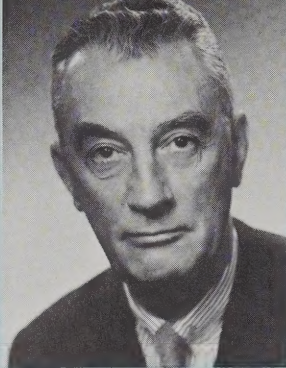
EARNINGS SUMMARY in thousands of dollars

	1965	1964
Operating Revenues	\$592,961	\$542,772
Other Income	9,695	9,425
	<u>\$602,656</u>	<u>\$552,197</u>
Operating Expenses	\$372,318	\$343,366
Taxes	106,101	96,037
Interest	37,712	35,055
	<u>\$516,131</u>	<u>\$474,458</u>
EARNINGS AVAILABLE FOR DIVIDENDS	\$ 86,525	\$ 77,739
Dividends to shareholders	65,129	63,005
Retained in the business	21,396	14,734

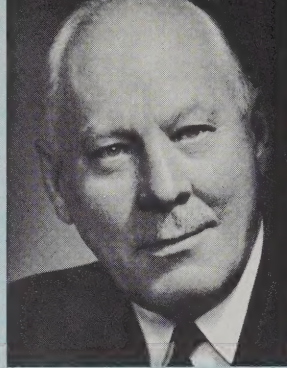
DIRECTORS



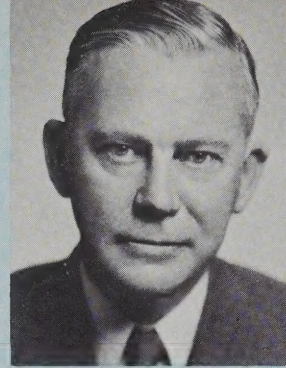
THOMAS W. EADIE*
Montreal
Chairman, Bell Canada



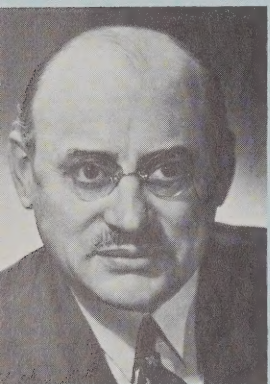
MARCEL VINCENT*
Montreal
President, Bell Canada



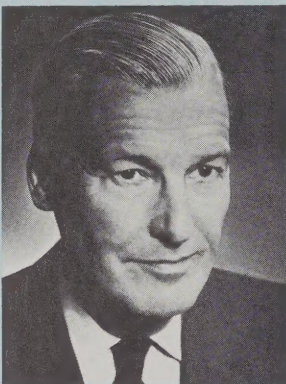
HENRY BORDEN, C.M.G., Q.C.
Toronto
Consultant and former Chairman,
Brazilian Traction, Light & Power
Co. Ltd.



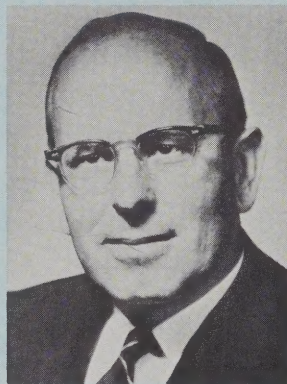
C. GORDON COCKSHUTT, M.C.
Brantford
President,
Cockshutt Securities Limited



MARCEL FARIBAULT*
Montreal
President, Trust Général du Canada



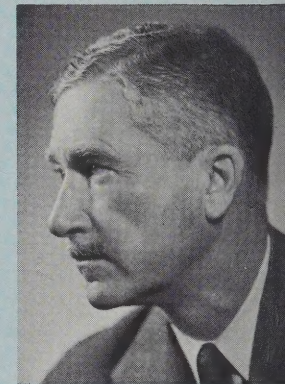
JOHN A. FULLER*
Montreal
Company Director



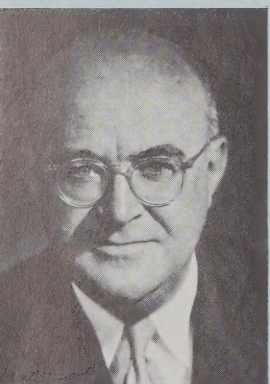
RICHARD R. HOUGH
New York
Vice-President,
American Telephone & Telegraph Co.



FREDERICK JOHNSON*
Montreal
Former President and Chairman,
Bell Canada



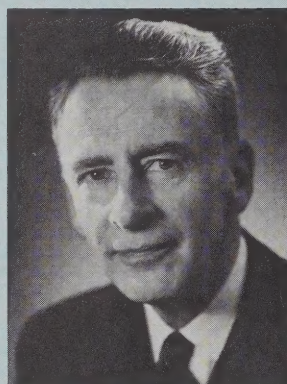
R. HOLLEY KEEFLER, C.B.E., D.S.O.*
Montreal
President and Chairman,
Northern Electric Company, Limited



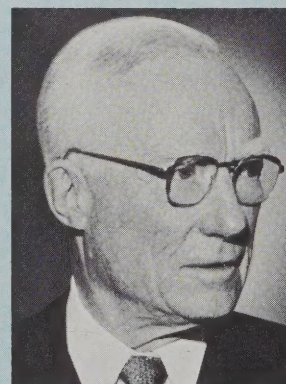
HERBERT H. LANK*
Montreal
Chairman,
Du Pont of Canada Limited



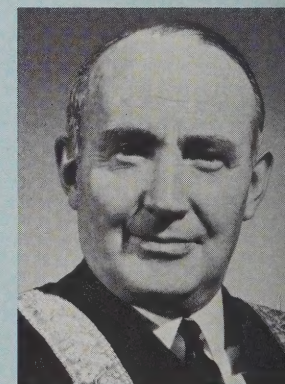
WALLACE C. MACPHERSON
Montreal
Vice-President, Bell Canada
elected July 8, 1965



ARTHUR S. PATTILLO, Q.C.
Toronto
Partner, Blake, Cassels & Graydon
appointed January 26, 1966



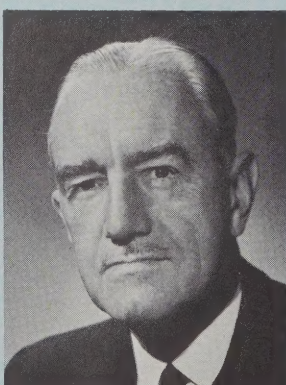
RAY E. POWELL*
Montreal
Honorary Chairman,
Aluminum Company of Canada Ltd.



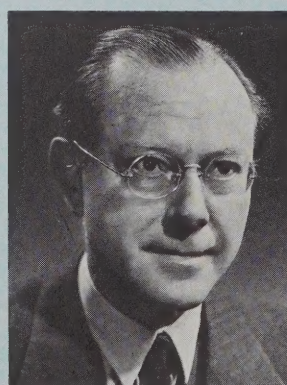
DR. H. ROCKE ROBERTSON
Montreal
Principal and Vice-Chancellor,
McGill University
elected July 8, 1965



LUCIEN G. ROLLAND
Montreal
President and General Manager,
Rolland Paper Company, Limited
elected July 8, 1965



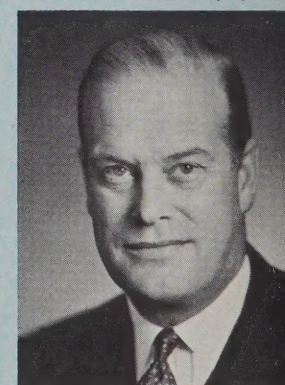
EDWARD A. ROLPH*
Montreal
Executive Vice-President,
Bell Canada



GRAHAM F. TOWERS, C.M.G.
Ottawa
Company Director



JEAN TURGEON, Q.C.
Quebec
Senior Member, Bouffard, Turgeon,
Amyot, Choquette & Lesage



HON. ROBERT H. WINTERS, P.C.
Toronto
Chairman, Rio Algom Mines Limited
resigned December 23, 1965

In its 86th year of operation, The Bell Telephone Company of Canada set new records of growth and achievement. An unusually high level of business and general activity in Canada brought with it increased service requirements, and challenged the productive capacities of both telephone people and the communications systems they operate.

As in the past, the public called on us to provide communications services designed to meet existing needs and to anticipate and encourage further progress. We responded with the most vigorous program of service expansion and facility improvement in our history and, in line with still-growing customer needs, we plan an even more ambitious program in 1966.

Earnings Continued to Improve

During the year, the Company succeeded in further increasing its earnings under the existing rate structure. The return on total capital was 6.6 per cent, compared with 6.3 per cent in 1964. Earnings per share were \$2.92, an increase of 21 cents over the 1964 level. Shareholders received \$2.20 per share and the balance was retained and used to expand and improve service.

The higher earnings reflected a continuing favourable trend in the relationship between revenues and expenses. Due primarily to substantial growth in the use of our services, revenues rose 9.2 per cent,

while expenses were held to an increase of 8.4 per cent.

A major factor in this improvement over the 1964 results was the increase of 12.6 per cent in long distance revenue — considerably higher than has normally been experienced. Revenue from local service increased 8.0 per cent, while revenue from other sources, including directory advertising, rose 3.7 per cent.

Of particular significance on the expense side were maintenance and depreciation charges which were higher than in the previous year, mainly as a result of the greater amount and value of Company plant and equipment. Total payroll increased 7.0 per cent.

Compared with earnings of \$86.5 million, Company taxes to all levels of government totalled \$106.1 million in 1965 — equivalent to \$3.58 per share, or \$23.92 for each telephone in service. This amount does not include taxes which the Company collects from customers and remits to governments, nor does it include sales and other commodity taxes which the Company must pay. Of the Company's tax bill, income tax of \$17.8 million was payable to provincial governments and \$63.0 million to the federal government. The balance of \$25.3 million was principally taxes levied by the various municipal governments.

The President's address at the Company's annual general meeting of shareholders in March, 1965, made particular reference to the subject of income taxes. During the year, federal authorities an-

nounced their intention to hand over to the provinces 95 per cent of the federal income tax paid by certain utilities engaged in the production or distribution of electricity, gas or steam. The Company believes that a corresponding tax-sharing arrangement should be extended to the telephone industry, and it has made representation to this effect.

During May and June, the Board of Transport Commissioners for Canada held hearings at Ottawa to review the effects, on Company financing, operations and earnings, of the many changes which had taken place since 1958, when the present level of local service rates was established. The 1965 hearing did not concern rates, and the Company made clear that it was not proposing to increase its charges. Indeed, since 1958 the Company has been able to make several significant reductions in long distance rates.

During the latter part of the year, the Company and its associates in the Trans-Canada Telephone System arranged to reduce certain "long haul" telephone rates. The Company also proposed reductions in the rates for certain long distance calls within its territory, and an extension of the period when its special Family Calling Plan rates apply. Authorization was granted the Company by the Board of Transport Commissioners, with effect from March 6, 1966. This marks the third such reduction since 1960, and will mean savings to Bell customers of some \$1.7 million on an annual basis.

Bell Telephone and Northern Electric engineering executives, members of a permanent joint planning board, examine a new product of Canadian telecommunications research developed at Northern's Research and Development Laboratories near Ottawa.



Integration of Research, Manufacturing and Operations

During the recent Transport Commissioners' hearings in Ottawa, questions were raised concerning the cost and service implications of Bell ownership of the Northern Electric Company, Limited. The Company gave its reasons for considering that there is no adequate substitute for Northern's continuance as Bell's wholly-owned research, manufacturing and purchasing subsidiary, and the directors wish to record them again in this report for the information of the shareholders.

The communications needs of Canadians undergo constant and rapid evolution, and the pace is quickening as time goes on. The satisfaction of particular Canadian requirements, with modern systems and equipment of uniformly high quality, at reasonable cost, requires a degree of integration in research, supply and service operation which it would be impossible to achieve without the unity of purpose and objectives that is assured by Bell ownership of Northern Electric. If Northern were owned by others, or if ownership were shared, the essential unity would be lacking.

Northern Electric has developed Canadian sources for more than 95 per cent of all material it purchases. Currently, more than 5,000 other Canadian business firms are engaged in supplying the Bell Telephone Company's varied needs through sale of their products and services to Northern Electric. This is just one of the many ways in which integration of supply, manufacturing and operations contributes directly to the prosperity and economic growth of Canada.

Meeting Customer Needs

To help meet customer requirements now and in the future, the Company invested \$242.5 million in

1965 in the construction and purchase of new plant and equipment.

During the year, we connected 1,173,000 telephones to the network, to achieve a net growth of 265,000 — the greatest telephone increase ever recorded by the Company in a single year. The total number of telephones in service reached 4,578,000. Twelve new exchanges were established, most of them in remote areas which had formerly been without local service. As part of its continuing program to provide the scope of calling best suited to the evolving needs of customers, the Company introduced Extended Area Service (EAS) in many additional locations; now 94 per cent of Bell customers can call beyond their local exchanges to one or more other communities without long distance charge. Long distance calls increased by nearly eight per cent in volume, to an average of nearly 540,000 calls daily; the corresponding increase in 1964 was six per cent. The total number of long distance calls continues to increase year by year, despite the fact that more and more calls formerly classed as "long distance" are being handled as local calls, under the Company's many EAS plans.

Inter-City Services

For the past decade, microwave radio has formed a significant and growing proportion of our long distance installations. During 1965, a second microwave link was added between the cities of Quebec and Rivière-du-Loup, thereby providing additional capacity and diversifying for service protection a vital part of the mainline route between central Canada and the Maritimes. In addition, we began engineering work to establish a new microwave link between Montreal and Val d'Or, in cooperation with Téléphone du Nord de Québec, Limitée, a subsidiary of Northern Telephone, Limited.

Besides providing new routes, we are enlarging the call-carrying ca-

pacities of existing facilities. A new microwave system, product of the Research and Development Laboratories of Northern Electric, is compatible with present installations and doubles the potential message capacity of existing microwave channels. This new system was first placed in service between Montreal and Sherbrooke in 1965, and a Montreal-Barrie-Toronto-London system is scheduled for completion in 1966.

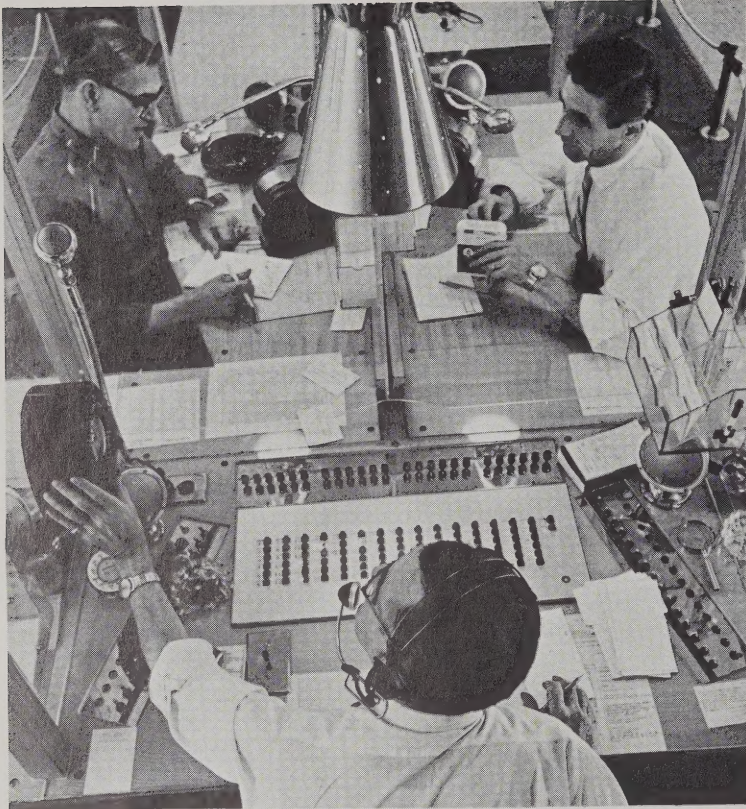
Service in Town and Country

Customer requirements for plentiful and consistently good communications services are evident today in all parts of our territory. In a mobile society such as ours, people tend to expect the same high level of service wherever they may be. In view of this, the Company made significant progress in major programs designed to extend the availability of urban-type telephone service in non-urban areas.

Much was accomplished in 1965. Individual and two-party services were made available in 255 localities which previously had only multi-party service as the standard offering. Many local calling areas were enlarged, and 16 exchanges were converted to dial. More than 99 per cent of the Company's telephones are now dial-operated, and conversion of the remainder is planned for the near future.

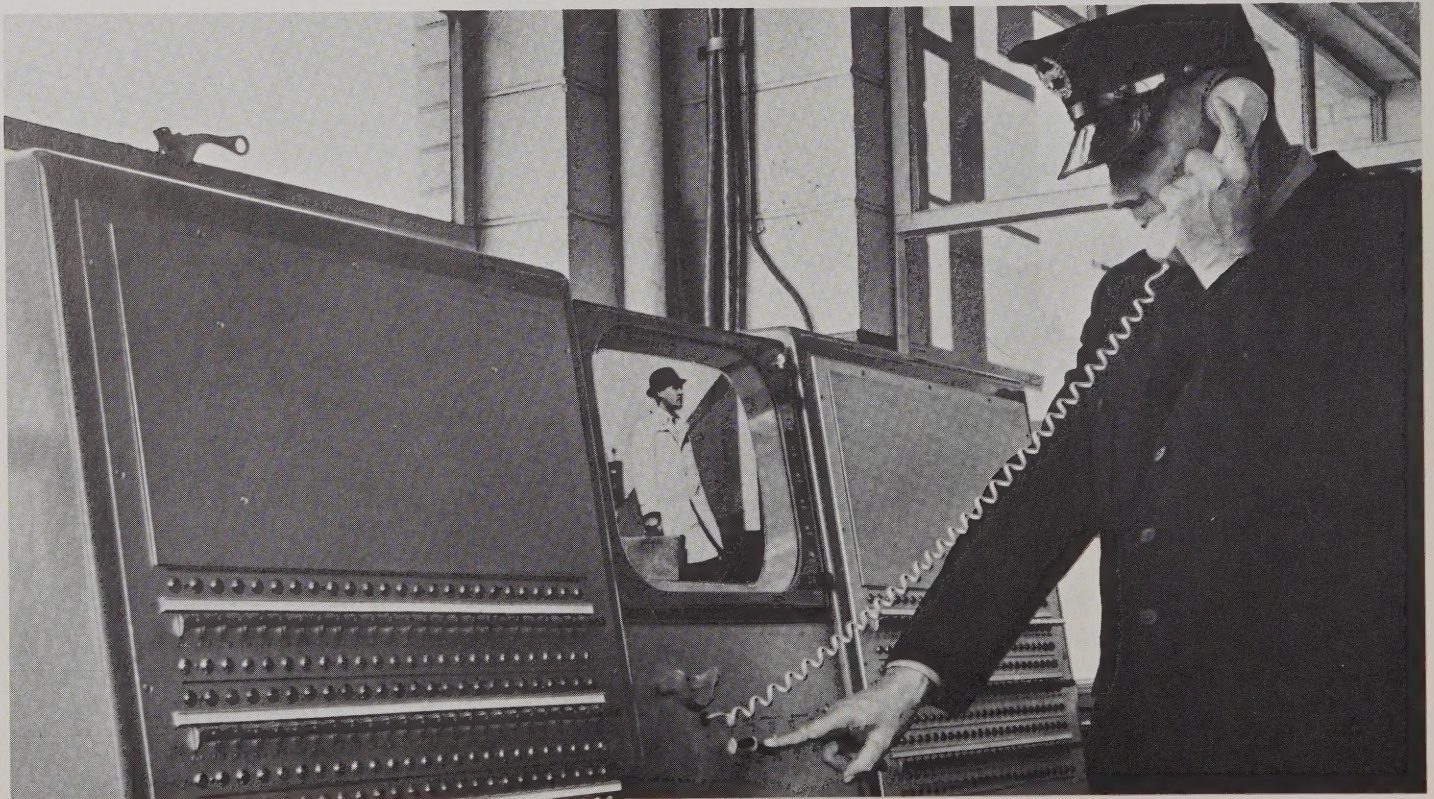
In the five years from 1960 through 1964, the Company spent \$136.1 million on service improvements in non-urban areas, and it plans to invest even more in the next five-year period.

Telephone service was extended into additional sections of northern Canada. Four exchanges were opened in Labrador, one in northern Quebec at Deception Bay, and one in the District of Franklin. Also, five new exchanges were opened in the District of Keewatin, where access to the telephone network is provided in cooperation with the Manitoba Telephone System.



A special system tailored to the requirements of a major taxi company in Montreal uses Bell Call Directors to help in providing speedy taxi service.

A custom designed communications system, providing modern Centrex services and an automatic plant protection alarm system, was recently installed for McKinnon Industries of St. Catharines. Special features include a closed-circuit television facility for centralized control of admittance to the headquarters building.



The Growing Urban Complex

Across Ontario and Quebec, where most of the Company's operations are concentrated, three people in four live in cities or the surrounding complexes of suburban communities. In 1965, the Company broadened further the scope of service in a number of these important locations.

The local calling areas of 280,000 suburban Toronto customers were extended in November, in the first phase of a \$10 million program. During 1966, scope of service will be broadened for additional thousands of customers in the Toronto metropolitan area.

In 1965, a number of local calling areas in Montreal were further enlarged. In addition, work was begun on extensive equipment rearrangements to provide calling on a local service basis between most of the 14 municipalities on Ile-Jésus, north of Montreal, which were amalgamated late in 1965 to form the new City of Laval.

Having successfully introduced the premium-priced Touch-Tone telephone service in four communities, we are introducing it in some 30 additional communities in 1966. Touch-Tone telephones are equipped with pushbuttons instead of the usual dial. Besides providing more convenient calling, Touch-Tone will eventually make possible a variety of new and useful customer services.

Company construction activities are always planned with community appearance and public preference in mind. Wires and cables are placed underground wherever physical and economic conditions permit. Our investment in buried and underground plant has increased 60 per cent in the past five years. Of the total outside plant, about half — representing more than \$400 million — is now underground. Working in close cooperation with architects and builders, we are also placing more and more

wire and cable within the walls of homes, apartments and office buildings during construction, to improve appearance and facilitate telephone installation.

Business Communications

The Company is meeting and anticipating the increasingly complex requirements of business customers.

Centrex, a private branch exchange service which provides direct inward and outward dialing to and from business extension telephones, was installed in 1965 for 11 major business customers, including four universities. For 1966, we have planned far-reaching research into the total communications requirements of universities in our territory, including telephone and television applications in the teaching process and the service requirements of students in residence.

During the year, Teletypewriter Exchange Service (TWX) went inter-continental, and the scope of our TWX service was broadened to include teletypewriter locations in more than 100 overseas countries. Flexibility, reliability and accuracy of the service are demonstrated by the fact that a growing number of customers are using TWX for the transmission of data and other machine language.

Significant growth also was shown in other business services. The number of Telescript units in service more than doubled during 1965; Telescript service transmits handwritten messages or sketches. The number of customer lines with Wide Area Telephone Service (WATS) increased 60 per cent; WATS is designed to meet economically, by means of a flat or measured time rate, the needs of many business users of long distance service. Mobile radio-telephone and signalling services continued to expand; Bellboy paging service proved particularly attractive.

Emergency Services

During the year, further progress was made in providing municipalities and institutional customers with emergency systems required for the convenience and safety of the public. In addition, telephone operators assisted customers thousands of times each month in securing prompt and effective help in emergencies.

A new and unique service was installed for the Ontario Motor League along Toronto's Gardiner Expressway, to provide instant and direct connection with the League's office for drivers of vehicles stalled or otherwise disabled on the highway. Another special system, installed for the National Harbours Board, provides round-the-clock protection of life and property along the Montreal waterfront.

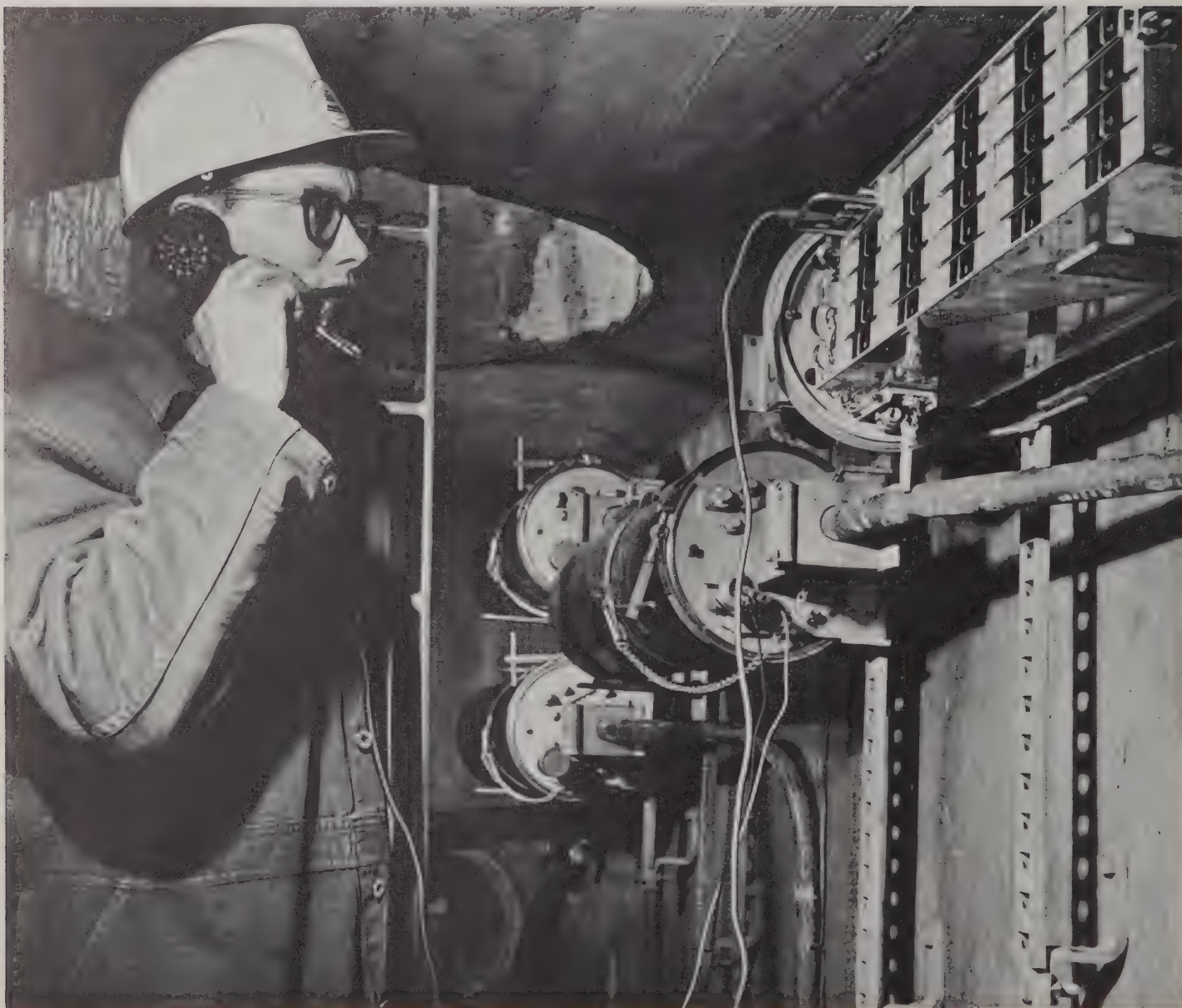
A mobile radio-telephone service, blanketing much of the Province of Quebec, was provided for the Quebec Provincial Police by the Company in cooperation with Québec-Téléphone and other telephone companies. A direct-line network, for instantaneous communication among 12 municipalities in suburban Montreal, was established to facilitate coordination of fire and police services in these communities.

New Capital Secured

To help finance its record construction program, the Company in September, 1965, raised \$50 million in U.S. funds by the sale of 30-year first mortgage bonds at an interest rate of 4.85 per cent. A similar sale of \$28 million in bonds was arranged late in the year for delivery early in 1966.

Sale of shares to employees under the Employees' Stock Plan provided a further \$19.1 million in capital. At year end, 28,900 employees, or more than four in every five permanent employees with at

Hidden beneath city streets and protected from the weather are hundreds of complex electronic installations that make convenient local calling possible between widely-separated communities of the Toronto metropolitan area.



least six months' service, were taking advantage of this part of the Company's voluntary savings program.

Strengthening Our Operating Effectiveness

A change in the Company's territorial structure, designed to bring senior operating management into closer contact with customers in the areas they serve, was announced in October and will be made effective early in 1966. The two existing non-metropolitan areas — Eastern and Western — are being realigned into three areas. Headquarters will be established in Quebec City for the Eastern Area and in Ottawa for the new Central Area; Western Area headquarters will remain in Toronto.

Another step taken to improve our performance was the issuing of customers' bills by computer. This procedure was introduced in the Province of Quebec and in eastern Ontario in 1965; it will be extended to Toronto and the remainder of Ontario in 1966. Modern computer technology will make possible further significant improvements in our service to customers and in the administration of the organization. A Business Information Systems Department was established during the year to design and develop business systems employing computer techniques for the instant and automatic retrieval of information required in the successful operation of the business.

University Research Activities

The Company has benefited from the assistance of universities and their faculty members in research projects. Evaluation of a large-scale test of new methods of improving the operating effectiveness of employees at all levels of the organization, now in its second year, is being conducted by the University of Western Ontario. This project has aroused interest among

other large companies and institutions in both Canada and the United States. Another research project, being carried out by members of the faculty of Laval University, in conjunction with social scientists from Harvard and the University of Western Ontario, is the detailed investigation of various aspects of the Company's effectiveness as a member of the society it serves.

Industry-wide Cooperation

During 1965, as part of a co-ordinated program to meet increasing service requirements, the Trans-Canada Telephone System—of which the Company is a member—provided additional facilities to help carry a total volume of messages nearly 30 per cent greater than in the previous year. Additional microwave facilities were also constructed for the transmission of network programs to newly-established radio and television stations, and work was begun to ensure that the Trans-Canada microwave system will be ready, when required, for colour transmission.

Along with other members of the Telephone Association of Canada, the Company is participating in Expo '67 in Montreal. During June, the Association unveiled plans for a pavilion featuring communications displays and a spectacular film about Canada. Groundbreaking ceremonies, in which the signal to begin work was relayed from Paris to Montreal by means of the "Early Bird" communications satellite, were held in August, and construction of the pavilion began the following month.

During the year we assisted a number of other telephone companies and systems to complete dial conversions and other service improvements. In Ontario and Quebec 311 other companies serve a total of some 400,000 telephones, all of which are available to Bell customers through the long distance network. We are therefore con-

cerned that the service they give be modern and efficient.

The Bell Telephone Company continues to work with these other companies to help them solve local problems. If such a company decides it is unable to provide good, modern service and wishes to sell, we are prepared to purchase the system at a fair price. Under such circumstances, our Company acquired five small Ontario and Quebec systems during 1965; 16 were acquired by others.

The Spirit of Service

The Company's advance planning to provide dependable communications in the event of an emergency was tested November 9 when a massive power failure blacked out large sections of Ontario and north-eastern United States. Our own emergency power systems went into operation immediately at switching centres and continuous telephone service was maintained throughout our territory. Not only were public hardship and panic minimized, but the work of power restoration was speeded immeasurably by uninterrupted telephone services.

During the blackout, Company information and assistance operators handled an extremely large volume of calls; the willing spirit of service that is part of the telephone tradition was again demonstrated as many off-duty employees volunteered their services and others worked long beyond their normal shifts.

Formal recognition for acts of public service in giving first aid and assistance in emergencies was accorded during the year to 17 employees. Letters of commendation from the President were presented to: Roderick J. Ferguson, Arthur E. Stubbs and Ronald O. Gough, all of North Bay; Charles D. George and Robert D. McKercher, Toronto; Joseph L. Martin, Dryden; William J. Russell, Niagara Falls; Benoit



Company employees continue to devote their time and talents in service to their home communities. In this photograph, Rolland Thorpe, Bell technical supervisor and Chief of the Roxboro, Quebec, Volunteer Fire Brigade, instructs Fireman "41" Bill Kearney, Bell sales representative, and another volunteer.

President Marcel Vincent signs approval of the new Company trade mark. The design will be used to identify Company buildings and equipment as well as advertisements and printed materials.



Desrosiers, Quebec; Aldren Robinson, Ottawa; Sydney W. Wray, Huntsville; Hubald H. Desjardins, Hull; Robert W. Greer, Oshawa; William O. Taylor, Orillia; Giovanni Speziale, Fort William; William H. Jennings, Valleyfield; Claude T. Lebel, St. Jerome; and Beverly G. Ginn, Montreal. In 1965, some 6,000 employees completed first-aid courses conducted after working hours by the Company.

Wages and Benefit Plans

In 1965 the Company reached agreement on revised contracts with three unions representing 30,000 employees. As a result, wages increased substantially.

During the year, arrangements were made for the Company's Pension Plan to be integrated with the Canada and Quebec Pension Plans on January 1, 1966. The result is a combination of Company and government plans providing higher pension benefits for employees at moderate cost to the individual. The Company also introduced a new Comprehensive Medical Expense Plan to replace and improve the protection provided by our two former plans.

Early in 1966, an Employees' Savings Plan, designed to replace the existing Employees' Stock Plan, was submitted for the approval of the Board of Transport Commissioners. Under the new plan, eligibility to purchase Bell shares by payroll deduction and assignment of dividends will be extended to employees of designated subsidiary companies. The extent of total participation will be controlled to protect the interests of other shareholders, and the price to employees will be related to a more current market price than is now the case.

Better Education: A Valued Asset

Because of the increasing complexity of the business, all telephone

people have a continuing need to update and amplify their knowledge and skills. Among our most progressive and productive training programs is the Regional Communications Engineering School at Queen's University, where selected engineers who have been away from university classrooms for a period of years are able to study and equip themselves with knowledge of the latest developments in their science. In addition to the many Company schools and courses already in operation, a new and unique school was established at Pointe Claire to teach the skills required by our buildings staffs in the maintenance of mechanical equipment.

Besides providing on-the-job courses, the Company supports employees in their efforts at personal development. More than 2,000 took advantage in 1965 of the Company's after-hours educational assistance program, terms of which were further improved during the year. Such initiative on the part of employees results in advantage to themselves, to the Company, and to society at large.

Appointment of Directors and Officers

In March, the Company obtained parliamentary approval to increase the number of its directors from 15 up to a new statutory maximum of 20. Later, on July 8, the shareholders at a special general meeting adopted a resolution increasing the number of the Company's directors from 15 to 18, and elected three additional members to the Board. They are Dr. H. Roche Robertson, Lucien G. Rolland and Wallace C. Macpherson. Following the announcement of his appointment to the Federal Cabinet, the Honourable Robert H. Winters, P.C., resigned from the Board of Directors on December 23, 1965. Arthur S. Pattillo, Q.C., Toronto,

was appointed a director on January 26, 1966.

Three executive vice-presidential positions were established during the year. Appointed to the posts, effective November 1, were: A. J. Groleau, administration; A. G. Lester, planning and research; and R. C. Scrivener, operations.

An interchange of vice-presidents was arranged between Bell and Northern Electric. C. B. Woodley was appointed Vice-President & General Manager (Toll Area); he was succeeded as Northern's Vice-President & General Manager (Apparatus Division) by W. D. E. Anderson, formerly Bell's Toll Area Vice-President & General Manager.

Two officers — J. A. Dochstader, Assistant to the President, and William McNeill, Comptroller — retired in 1965. G. C. Wallace succeeded Mr. McNeill July 1, after relinquishing his position as President and Managing Director of The Avalon Telephone Company, Limited. Later, on November 1, he was appointed Vice-President (Finance), succeeding Mr. Groleau.

Other appointments announced during the year were: J. R. Traves, Vice-President (Engineering); Claude Duhamel, Vice-President & General Manager (Eastern Area); and J. C. Thackray, Vice-President & General Manager. Mr. Thackray will direct the operations of the new Central Area. Also announced, to be effective January 1, 1966, was the appointment of P. C. Venne, Q.C., as Vice-President (Law).

For the Board of Directors,



President

February 7, 1966

BALANCE**ASSETS***in thousands of dollars*

	December 31, 1965	December 31, 1964
TELEPHONE PROPERTY		
Land, Buildings, Plant and Equipment — at cost (a)	\$2,519,326	\$2,337,428
	<hr/>	<hr/>
INVESTMENTS		
Subsidiary Companies — at cost (b)	57,529	56,543
Other Investments — at cost (c)	23,960	20,697
	<hr/>	<hr/>
	81,489	77,240
	<hr/>	<hr/>
CURRENT ASSETS		
Cash	3,929	3,879
Temporary Cash Investments (d)	10,997	39,464
Accounts Receivable (e)	70,960	62,524
Material and Supplies — at cost	13,818	12,543
Prepayments (f)	11,246	11,426
	<hr/>	<hr/>
	110,950	129,836
	<hr/>	<hr/>
DEFERRED CHARGES		
Unamortized Discount and Expense on Long Term Debt (i) . .	5,388	5,926
Other	1,470	1,411
	<hr/>	<hr/>
	6,858	7,337
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$2,718,623</u>	<u>\$2,551,841</u>

Signed on behalf of the Board of Directors:

F. JOHNSON, *Director.*E. A. ROLPH, *Director.*

LIABILITIES
in thousands of dollars

	December 31, 1965	December 31, 1964
SHAREHOLDERS' EQUITY		
Capital Stock (g)	\$ 745,300	\$ 734,638
Premium on Capital Stock (h)	273,130	268,434
Retained Earnings	116,552	95,173
	<u>1,134,982</u>	<u>1,098,245</u>
LONG TERM DEBT		
First Mortgage Bonds (i)	794,353	735,000
	<u>794,353</u>	<u>735,000</u>
CURRENT LIABILITIES		
Accounts Payable (j)	48,127	38,628
Advance Billing and Payments for Service	15,142	14,320
Dividend Payable	16,397	16,162
Taxes Accrued	31,315	32,947
Interest Accrued	10,881	10,055
	<u>121,862</u>	<u>112,112</u>
ACCUMULATED DEPRECIATION		
Accumulated Provision for Depreciation of Telephone Property	596,256	533,053
	<u>596,256</u>	<u>533,053</u>
DEFERRED CREDITS		
Income Tax (k)	49,697	49,208
Employees' Stock Plan (l)	20,624	16,910
Unamortized Premium Less Expense on Long Term Debt (i)	849	7,313
	<u>71,170</u>	<u>73,431</u>
TOTAL LIABILITIES	<u>\$2,718,623</u>	<u>\$2,551,841</u>

The notes to financial statements on pages 18, 19 and 20 are an integral part of this statement.

G. C. WALLACE, Vice-President.

THE BELL TELEPHONE COMPANY OF CANADA

INCOME STATEMENT

in thousands of dollars

	Year 1965	Year 1964
OPERATING REVENUES		
Local Service	\$351,474	\$325,524
Long Distance Service	211,502	187,874
Miscellaneous (m)	32,786	31,616
Less: Provision for Uncollectibles	2,801	2,242
	<u>592,961</u>	<u>542,772</u>
OPERATING EXPENSES		
Maintenance (n)	108,682	99,128
Depreciation (o)	116,107	106,224
Traffic (p)	41,230	39,452
Marketing and Commercial (q)	44,677	41,734
Other (r)	61,622	56,828
	<u>372,318</u>	<u>343,366</u>
NET OPERATING REVENUES	<u>220,643</u>	<u>199,406</u>
OPERATING TAXES		
Income Taxes	80,788	72,916
Other Taxes	25,313	23,121
	<u>106,101</u>	<u>96,037</u>
OPERATING INCOME	<u>114,542</u>	<u>103,369</u>
OTHER INCOME		
Dividends from Subsidiary Companies (b)	6,606	5,720
Dividends and Interest from Other Investments	1,923	2,457
Miscellaneous (s)	1,166	1,248
	<u>9,695</u>	<u>9,425</u>
TOTAL INCOME BEFORE INTEREST CHARGES	<u>124,237</u>	<u>112,794</u>
INTEREST CHARGES		
Interest on Long Term Debt	36,096	33,883
Other Interest	1,263	916
Amortization of Discount, Premium and Expense on Long Term Debt (i)	353	256
	<u>37,712</u>	<u>35,055</u>
NET INCOME FOR THE YEAR	<u>\$ 86,525</u>	<u>\$ 77,739</u>

The notes to financial statements on pages 18, 19 and 20 are an integral part of this statement.

G. C. WALLACE, Vice-President.

THE BELL TELEPHONE COMPANY OF CANADA

STATEMENT OF RETAINED EARNINGS

in thousands of dollars

	Year 1965	Year 1964
BALANCE AT BEGINNING OF YEAR	\$ 95,173	\$ 80,109
<i>Add:</i> Net Income for the Year	86,525	77,739
Miscellaneous Items (net)	—	330
	<u>181,698</u>	<u>158,178</u>
<i>Deduct:</i> Dividends	65,129	63,005
Miscellaneous Items (net)	17	—
	<u>65,146</u>	<u>63,005</u>
BALANCE AT END OF YEAR	<u>\$116,552</u>	<u>\$ 95,173</u>

STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

in thousands of dollars

	Year 1965	Year 1964
SOURCE OF FUNDS		
Operations:		
Net Income for the Year	\$ 86,525	\$ 77,739
<i>Add:</i> Depreciation	116,107	106,224
Other Transactions Not Requiring an Outlay of Funds (net)	1,370	1,206
	<u>204,002</u>	<u>185,169</u>
Proceeds From Stock Issue	—	84,548
Proceeds From Employees' Stock Plan	19,072	15,911
Proceeds From Bond Issues	53,818	53,799
Decrease in Working Capital	28,636	—
Miscellaneous Items	182	1,301
	<u>\$305,710</u>	<u>\$340,728</u>
DISPOSITION OF FUNDS		
Construction Expenditures:		
Gross Construction Expenditures	\$242,458	\$233,533
<i>Deduct:</i> Charges to Construction Not Requiring an Outlay of Funds	7,348	9,339
	<u>235,110</u>	<u>224,194</u>
Dividends	65,129	63,005
Increase in Working Capital	—	15,054
Redemption of Bonds	—	25,000
Acquisition of Investments	4,249	12,483
Miscellaneous Items	1,222	992
	<u>\$305,710</u>	<u>\$340,728</u>

NOTES TO FINANCIAL STATEMENTS

BALANCE SHEET

(a) TELEPHONE PROPERTY

Land, buildings, switching and microwave equipment, poles, wire, cable, underground conduit, telephone apparatus, motor vehicles, office furniture and other equipment.

INVESTMENTS

(b) SUBSIDIARY COMPANIES

Direct ownership in the following companies:

Northern Electric Company, Limited (100%)
 The Avalon Telephone Company, Limited (99.3%)
 Télécommunications des Iles-de-la-Madeleine, Limitée (100%)
 Télécommunications Richelieu Limitée (99.9%)
 The Monk Rural Telephone Company, Limited (100%)
 The North American Telegraph Company (100%)

The accompanying financial statements are prepared on a corporate basis and have not been consolidated with those of subsidiary companies because 1. the operations of The Bell Telephone Company of Canada are subject to regulation by the Board of Transport Commissioners for Canada whereas those of its subsidiary companies are either not regulated or regulated by other jurisdictions, and 2. the business characteristics of Northern Electric Company, Limited, a manufacturing company and the principal subsidiary, are substantially different from those of the telephone companies.

The amount of the Company's proportion of the net earnings of all subsidiaries for the year 1965 is \$8,184,000 and of the retained earnings since acquisition is \$58,892,000 at December 31, 1965.

- (c) OTHER INVESTMENTS: preferred and common shares in Canadian telephone companies; market value at December 31, 1965: \$33,495,000.

(d) TEMPORARY CASH INVESTMENTS

Valued at cost or amortized value; market value at December 31, 1965: \$10,999,000.

(e) ACCOUNTS RECEIVABLE

Principally amounts due from customers, after a provision for uncollectibles. Includes \$117,000 receivable from subsidiary companies at December 31, 1965.

(f) PREPAYMENTS

Rents, taxes, insurance, cost of directories and other items applicable to subsequent period.

(g) CAPITAL STOCK

Par Value:	\$25.00 per share.
Authorized:	by charter — 40,000,000 shares.
	by shareholders — 40,000,000 shares.
Outstanding:	at January 1, 1965 29,385,520 shares
	issued in 1965 for cash 426,489 shares
	at December 31, 1965 <u>29,812,009 shares</u>

(h) PREMIUM ON CAPITAL STOCK

Balance at January 1, 1965	\$268,434,000
Premium on shares issued in 1965	<u>4,696,000</u>
Balance at December 31, 1965	<u>\$273,130,000</u>

NOTES TO FINANCIAL STATEMENTS (continued)

(i) LONG TERM DEBT

FIRST MORTGAGE BONDS at December 31, 1965

<i>Maturity Date</i>	<i>Rate of Interest</i>	<i>Series</i>	
December 15, 1967 . . .	4½ %	J . . .	\$ 40,000,000
December 1, 1970 . . .	4 %	L . . .	16,000,000
January 2, 1972 . . .	4¾ %	N . . .	20,000,000
March 15, 1972 . . .	5 %	O . . .	20,000,000
February 15, 1973 . . .	3¼ %	F . . .	35,000,000
April 1, 1974 . . .	6¼ %	S . . .	25,000,000
June 1, 1975 . . .	3¾ %	G . . .	40,000,000
May 1, 1976 . . .	3½ %	I . . .	40,000,000
March 1, 1977 . . .	3 %	E . . .	35,000,000
January 2, 1978 . . .	6¼ %	R . . .	35,000,000
May 15, 1979 . . .	3¾ %	K . . .	40,000,000
July 2, 1980 . . .	5¼ %	Q . . .	30,000,000
June 1, 1981 . . .	4 %	M . . .	24,000,000
January 2, 1982 . . .	5½ %	V . . .	40,000,000
August 2, 1982 . . .	5¾ %	T . . .	50,000,000
March 15, 1983 . . .	4¼ %	P . . .	50,000,000
June 15, 1984 . . .	5½ %	W . . .	30,000,000
October 1, 1984 . . .	5¾ %	Y . . .	30,000,000
January 2, 1986 . . .	6 %	U . . .	35,000,000
May 1, 1988 . . .	4⅞ %	X . . .	50,000,000
October 1, 1989 . . .	4.80 %	Z . . .	50,000,000
September 1, 1995 . . .	4.85 %	AA . . .	50,000,000
Exchange premium less discount, at time of issue, of Series N, P, X, Z and AA bonds payable in U.S. funds			9,353,000
TOTAL BONDS			<u>\$794,353,000</u>

Prior to 1965, bonds payable in U.S. funds were recorded in the Company's accounts at their face value and the difference between the face value and the amount received on issue was amortized over the terms of the bonds. In 1965, the Company changed its accounting so as to record exchange premium less discount, at time of issue, under Long Term Debt and discontinued amortization.

(j) ACCOUNTS PAYABLE

Amounts owing for supplies, equipment, payrolls and other items. Includes \$24,477,000 payable to subsidiary companies at December 31, 1965.

DEFERRED CREDITS

- (k) INCOME TAX: reduction in income taxes, for appropriation in future years, due to depreciation deducted for tax purposes being in excess of that included in operating expenses for the years 1954 to 1957 inclusive.
- (l) EMPLOYEES' STOCK PLAN: instalments paid by employees subscribing for 1,191,296 shares of capital stock at December 31, 1965, with interest thereon. The subscription prices are \$36.00 and \$42.00 per share depending on the date of filing, and shares are issued at various dates within 3½ years of the date of the initial instalment payment.

INCOME STATEMENT

OPERATING REVENUES

- (m) MISCELLANEOUS: principally from directory advertising.

OPERATING EXPENSES

- (n) MAINTENANCE: cost of inspection, repairs and rearrangements required to keep the telephone property in good operating condition.
- (o) DEPRECIATION: provision to meet the loss of investment when depreciable property is retired from service, based on rates designed to spread this loss uniformly over the life of the property.
- (p) TRAFFIC: costs, principally operators' wages, incurred in handling telephone calls.
- (q) MARKETING AND COMMERCIAL: sales expense, advertising, cost of directories, and costs incurred in business relations with customers.
- (r) OTHER: general office salaries and expenses, benefit payments, provision for service pensions, operating rents and other general expenses.

OTHER INCOME

- (s) MISCELLANEOUS: principally interest on plant under construction.

DIRECTORS' REMUNERATION

Year 1965: total remuneration received by the Directors from the Company and its subsidiary companies, including salaries of those Directors who were employees of the companies, and fees was \$426,000.

COMMITMENT

On December 21, 1965 the Company entered into an agreement for the sale of \$28,000,000 in United States funds of its First Mortgage 4.85% Bonds, Series AB, to be dated January 20, 1966 and to mature December 1, 1995, with delivery of \$13,000,000 on January 20, 1966 and of \$15,000,000 on February 24, 1966.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
THE BELL TELEPHONE COMPANY OF CANADA,
MONTREAL, QUE.

We have examined the balance sheet of The Bell Telephone Company of Canada as at December 31, 1965 and the related statements of income, retained earnings and source and disposition of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and related statements of income, retained earnings and source and disposition of funds present fairly the financial position of The Bell Telephone Company of Canada as at December 31, 1965 and the results of its operations and the source and disposition of funds for the year ended on that date, in accordance with generally accepted accounting principles applied, except for the change outlined in Note (i) of which we approve, on a basis consistent with that of the preceding year.

Montreal, Que.
February 7, 1966.

TOUCHE, ROSS, BAILEY & SMART
Chartered Accountants.

BENEFITS AND PENSIONS

UNDER THE PLAN FOR EMPLOYEES' PENSIONS DISABILITY BENEFITS AND DEATH BENEFITS

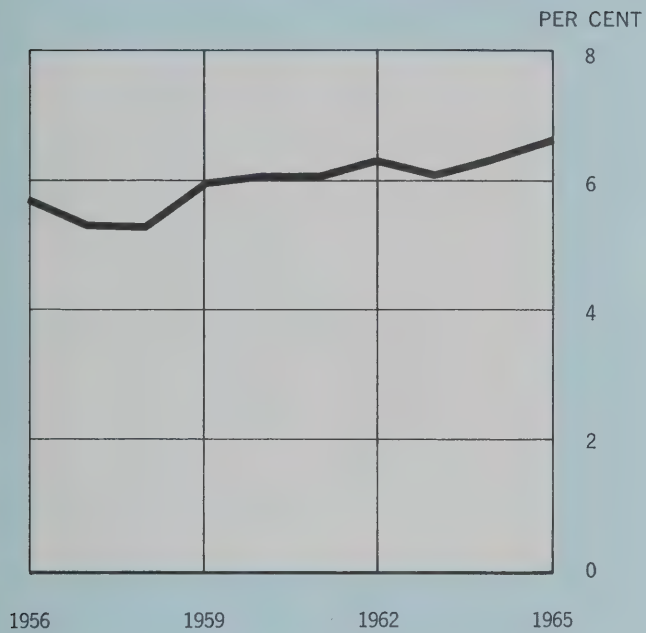
YEAR 1965

Sickness Benefits	\$1,313,033
Accident Benefits	88,850
Death Benefits	509,615
Disability Pensions	92,844

The Company has established a fund with The Royal Trust Company, Montreal, as Trustee: This fund is irrevocably devoted to service and deferred pension purposes. Under an accrual program based on actuarial studies, regular payments are made to the fund by the Company and amounted to \$11,352,568 in the year 1965. The amount in the fund fully provides for future payments to those now on the pension rolls and those now entitled to retire on service pension at their own request, or to a deferred pension. The fund is not a part of the assets of the Company and is, therefore, not reflected in the balance sheet.

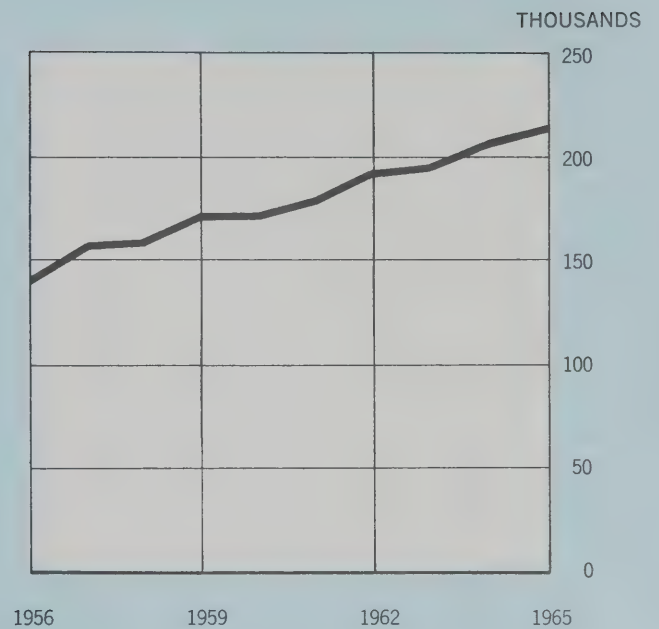
RETURN ON TOTAL CAPITAL

6.6 per cent



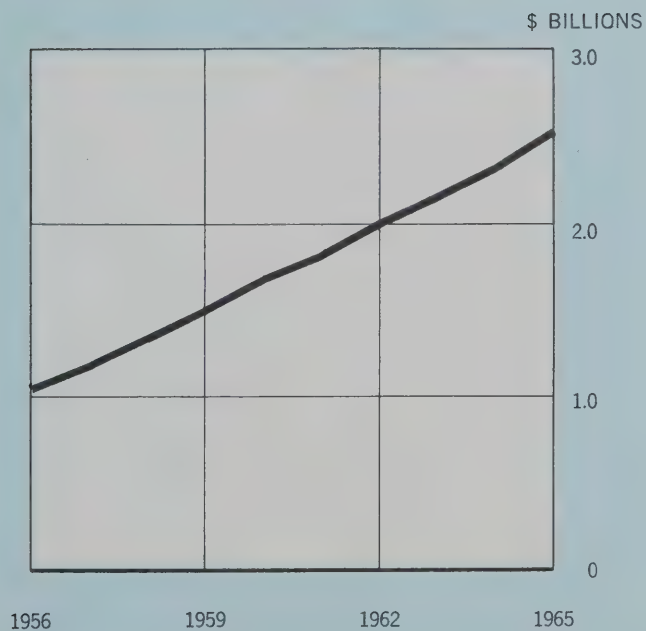
TOTAL SHAREHOLDERS

almost 214,000



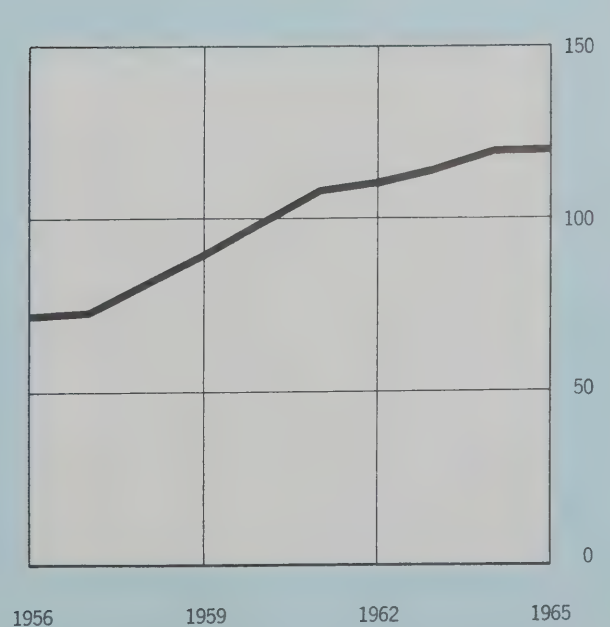
TELEPHONE PROPERTY

exceeds \$2.5 billion



TELEPHONES IN SERVICE

exceed 119 per employee

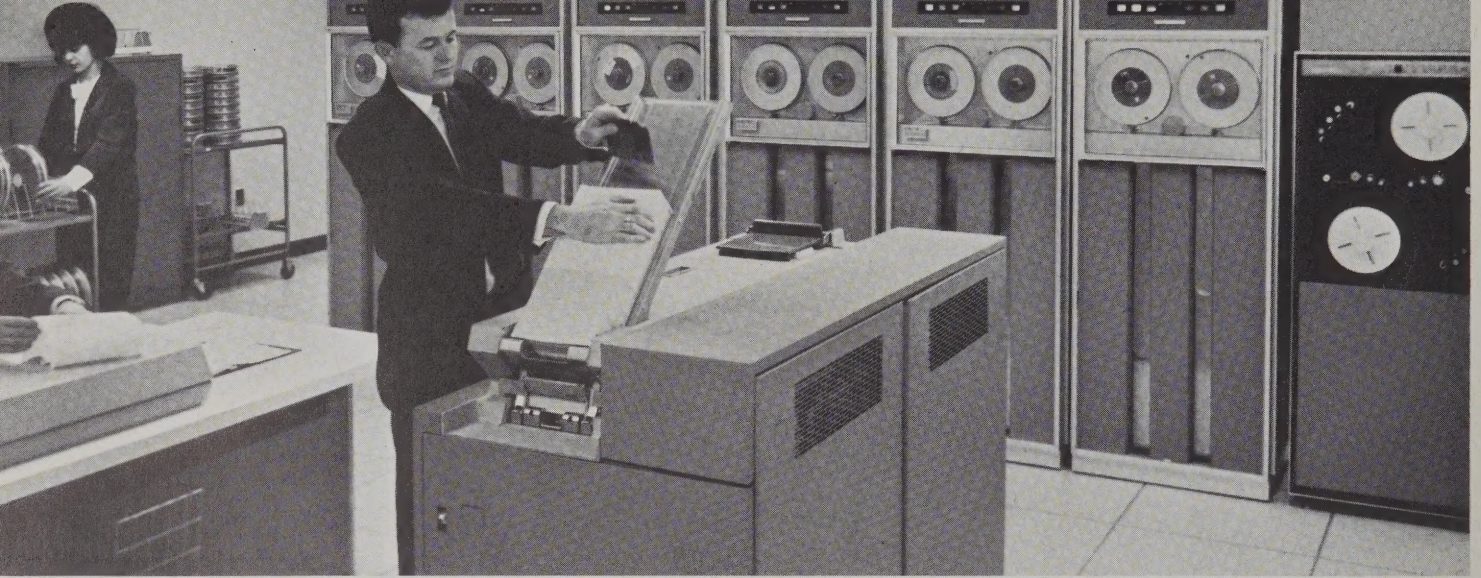


TEN-YEAR REVIEW

AT DECEMBER 31	1965	1964	1963	1962
Number of Telephones	4,577,573	4,312,577	4,090,102	3,890,630
Business	1,342,490	1,269,137	1,205,035	1,151,356
Residence	3,235,083	3,043,440	2,885,067	2,739,274
per cent Dial	99.4	99.1	98.2	97.0
Telephones Added During the Year* . .	264,996	222,475	199,472	195,523
connected	1,173,012	1,068,541	997,461	962,989
disconnected	908,016	846,066	797,989	767,466
Per cent Households with Telephones .	94	92	91	90
Average Calls Placed Daily*	27,353,000	26,020,000	24,926,000	23,904,000
Long Distance	536,000	495,000	468,000	440,000
Miles of Long Distance Circuits . . .	3,146,000	2,882,000	2,583,000	2,131,000
Construction Expenditures*	\$ 242,500,000	\$ 233,500,000	\$ 234,100,000	\$ 219,400,000
Telephone Property	\$2,519,325,623	\$2,337,428,669	\$2,172,448,112	\$2,000,943,787
Accumulated Depreciation	\$ 596,255,521	\$ 533,053,439	\$ 485,317,980	\$ 442,499,708
Number of Employees	38,320	35,890	35,441	35,086
Men	18,088	16,515	16,095	15,823
Women	20,232	19,375	19,346	19,263
Total Payroll*	\$ 200,236,041	\$ 187,081,096	\$ 179,297,157	\$ 170,470,796
Number of Shareholders.	213,939	207,150	195,037	192,854
per cent resident in Canada	97.5	97.4	97.3	97.3
Total Shares Outstanding	29,812,009	29,385,520	26,660,984	26,221,280
per cent held in Canada	93.7	93.6	93.1	93.0
Total Operating Revenues*	\$ 592,960,585	\$ 542,772,005	\$ 502,976,925	\$ 470,995,081
Total Operating Expenses*	\$ 372,317,860	\$ 343,366,040	\$ 325,795,006	\$ 301,856,922
Total Operating Taxes*	\$ 106,101,000	\$ 96,037,000	\$ 84,833,000	\$ 81,601,000
Earnings Available for Dividends* . . .	\$ 86,524,840	\$ 77,738,615	\$ 68,293,941	\$ 65,284,902
per Average Share Outstanding . . .	\$2.92	\$2.71	\$2.58	\$2.66
Per cent Return on Total Capital* . .	6.6	6.3	6.1	6.3
Total Equity per Share	\$38.07	\$37.37	\$36.80	\$36.49

*for the year ended December 31.

1961	1960	1959	1958	1957	1956
3,695,107	3,515,007	3,330,877	3,140,349	2,954,884	2,766,153
1,096,676	1,041,909	991,860	940,589	893,211	848,724
2,598,431	2,473,098	2,339,017	2,199,760	2,061,673	1,917,429
95.2	94.2	91.8	90.0	88.7	86.1
180,100	184,130	190,528	185,465	188,731	243,408
905,286	876,164	860,550	785,279	731,970	759,089
725,186	692,034	670,022	599,814	543,239	515,681
89	89	88	87	86	85
22,688,000	21,668,000	20,951,000	19,829,000	18,646,000	16,989,000
409,000	391,000	378,000	361,000	336,000	317,000
1,871,000	1,769,000	1,656,000	1,451,000	1,187,000	1,058,000
\$ 192,600,000	\$ 207,700,000	\$ 196,100,000	\$ 183,200,000	\$ 177,300,000	\$ 139,500,000
\$1,842,547,676	\$1,697,921,442	\$1,534,462,754	\$1,378,274,117	\$1,223,615,264	\$1,066,296,579
\$ 408,429,924	\$ 370,334,402	\$ 337,556,461	\$ 305,707,145	\$ 274,122,282	\$ 247,347,199
34,302	35,656	37,158	39,321	41,363	39,688
15,553	15,816	16,035	16,784	17,018	15,632
18,749	19,840	21,123	22,537	24,345	24,056
\$ 161,859,420	\$ 159,028,668	\$ 155,156,297	\$ 154,611,767	\$ 146,952,560	\$ 130,677,707
178,126	171,288	170,767	157,724	156,825	140,726
97.0	97.3	97.5	97.8	98.0	97.8
23,746,945	21,340,072	21,024,690	18,183,956	17,983,980	15,506,932
92.2	92.1	92.0	91.8	91.8	91.1
\$ 433,656,654	\$ 404,848,423	\$ 376,604,645	\$ 328,817,571	\$ 302,985,820	\$ 273,975,152
\$ 282,487,927	\$ 270,428,499	\$ 256,232,248	\$ 239,303,260	\$ 220,445,304	\$ 196,252,745
\$ 73,483,000	\$ 64,731,000	\$ 59,082,000	\$ 42,020,000	\$ 39,730,000	\$ 36,524,000
\$ 57,690,521	\$ 53,511,907	\$ 50,283,578	\$ 38,899,289	\$ 36,037,169	\$ 34,949,181
\$2.50	\$2.52	\$2.48	\$2.15	\$2.15	\$2.40
6.0	6.0	5.9	5.3	5.3	5.7
\$35.72	\$35.20	\$34.93	\$34.72	\$34.60	\$34.57



Telephone employees use modern electronic computers to provide immediate access to the up-to-date, accurate information required to ensure efficient administration and ever-improving customer service.



Information operators provide a needed service in supplying telephone numbers that have been added to the list since publication of the customer's directory.

People: The Key to Good Service

No matter how far technology may advance, the provision of good communications services will continue to depend primarily on the skills and resourcefulness of individual men and women. These are the people who operate and administer the business to ensure that customers have at their fingertips the kinds of communications services they need and want.



Bell installers offer customers a wide variety of telephone instruments and assist in selecting most convenient locations.



The new Bell Telephone building on Adelaide Street contains the main telephone switching equipment for downtown Toronto. It also houses a modern accounting centre and this public office where customers are invited to discuss their telephone needs with experienced service representatives whose primary concern is to ensure customer satisfaction.



The Bell Telephone Company of Canada